February 2, 1976

Mr. R. F. Roblin,

In view of concern expressed over upgrading of facilities and environmental problems, we have been asked to review all future lease renewals at S.A.C. (Sales Advisory Committee).

Thanks.

G.N.J.

Enc.
Tender re Churchill, Manitoba

MEMORANDUM FROM
GEORGE N. JENKINS

Feb. 6, 1976

Mr. J. B. Bedard,

I see that this report proposed taking on 2 man years of work in central office in next 3 - 6 months. Perhaps we should discuss.

G.N.J.

Refer:
Minutes of Western Arctic Gas
Pipeline Petroleum Supply Meeting
Feb. 3/76 rec'd Feb. 5 from R.F.Roblin/
R.M. Deschamps

OLEUM S

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RECEIVED
FEB 5 1976
G. N. JENKINS

MINUTES

of

"WESTERN ARCTIC GAS PIPELINE PETROLEUM SUPPLY" MEETING

Place of Meeting: Room 1711C,
Central Office
on Feb. 3/76
at 9.30 AM

Attended by: T. R. Clapp, A. Dedesko, D. R. Green, R. D. Montgomery, B. C. Orr, R. J. Richardson, A. C. Perez, A. O. Thompson, A. E. Johns, P. J. Fenton (Edmonton), B. Rosser (Edmonton)

Chairman: R. F. Roblin   Secretary: R. M. Deschamps

R. F. Roblin welcomed the participants and indicated the objective of the meeting which in addition to outlining the CAGSL/FOOTHILLS projects to various Central Office departments, was to get the manpower committments and set up a working committee to present an acceptable proposal to the pipeline applicants by mid 1976.

B. Rosser outlined the current status of the pipeline proposals in the Western Arctic (copies of the vu-graphs attached), discussing the applicants proposed routes, the volume estimates, the information the applicants require and what we see as the Imperial committment. It was stressed that an acceptable proposal to CAGSL/FOOTHILLS will have to be presented by mid 1976 for all or a portion of their forecasted volume requirements and that Imperial should undertake a major planning effort now since

- the volumes (257MMG, 1977-1981) warrant substantial planning to insure our profitable participation

- we are essentially the only refiner on the Prairies with significant spare capacity

- Imperial itself is a participant in one of the pipeline applications

- any planning effort we do now and the resultant success we will get on the gas pipeline can be used again for the crude oil pipeline (mid to late 1980's)

- a delay in either of the gas pipeline construction applications will not significantly change the probable conclusions we will reach in our proposed studies

cont/d

- we will have better expertise and a supply system advantage over our competitors

- the early contact will assist us in our market assessments of the support volumes which will also be substantial

- our position of Specialty Products Supply will be enhanced, giving us an edge in gaining this business.

Because of the scope and timing of the project, it was proposed by P. J. Fenton that Imperial commit the required manpower to develop a comprehensive proposal for either or both pipeline construction groups by mid 1976. Each department committed the following representatives:

LOGISTIC:	A. Dedesko
MARKETING:	R. M. Deschamps (Chairman) B. Rosser (Prairie Region)
TRANSPORTATION	- Specialties: R. J. Richardson - Fuels: should be named within a week

The attached lists (attachment 1) are meant to show the kinds of activities each department representatives will contribute toward meeting our stated objective.

---

cc: G. N. Jenkins
J. M. Bédard
H. F. Yeomans
D. S. Moat
R. Nishikawa

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TRANSPORTATION	- Specialties: R. J. Richardson - Fuels: should be named within a week

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---

cc: G. N. Jenkins
J. M. Bédard
H. F. Yeomans
D. S. Moat
R. Nishikawa

Marsula

ATTACHMENT 1

PROPOSAL DEVELOPMENT ACTIVITIES

LOGISTICS

1) Edmonton supply capability - all ABCD
- Southern D

2) Effect of seasonal flow changes.

3) Available refinery seasonal tankage to support project.

4) Loading rack capability.

5) Product exchanges for portion IOL won't supply so that all product can go through our rack.

6) Norman Wells supply capability with Hay River support.

7) Import product availability.

8) IOCO loading/unloading capability.

9) IOCO supply capability - to pour?

10) Cost of IFATS to supply Strathcona product ex IOCO.

11) Strathcona product costs.

12) IOCO product costs.

13) Import laid down cost - IOCO.

14) Logistics "brainstorm" possible supply alternatives.

15) Competitive capability - volume & cost.

ATTACHMENT 1

TRANSPORTATION

1) Strathcona loading rack capability.

2) Tank car availability.

3) Possible unit train application.

4) Hay River capability.

5) Other terminal capability.

6) Assess barge capability.

7) Feasibility of unit train to barge movement.

8) Marine movement cost and feasibility ex IOCO.

9) Competitive facility capability.

10) Transportation system costs.

11) Brainstorm methods of supply on transportation.

12) Supply ex Norman Wells in closed season - costs to various depots.

13) Costs of all transportation alternatives.

ATTACHMENT 1

SPECIALTIES

1) Product demands by grade by location by period.

2) Storage facility capability on site.

3) Manufacturing capability and cost.

4) Transportation capability and costs.

5) Terminalling capability at Hay River and other locations.

6) Bulk Lube vs drum economics.

7) Cold weather lube characteristics requirements.

8) Competitive capability vs E. Edmonton.

ATTACHMENT 1

MARKETING

1) Desirable share of business.

2) Competitive marketing approach.

3) Customer contact.

4) Overall project co-ordination (Region & Central Office)

5) Proposal preparation.

6) Baseload customer demand growth in NWT.

7) TAGLU gas plant construction volume requirements and timing.

8) Associated and aviation, barge and rail volumes.

9) Supportive NWT industry volumes.

10) Product quality requirements.

WESTERN ARCTIC PIPELINE PROPOSAL

We will attempt, over the next few minutes, to set out what we see as the current status of pipeline proposals in the Western Arctic, and our recommendations as to what Imperial should be doing to improve our position on supply of the successful project.

Historically, Imperial has been the major marketer in the Northwest Territories and the current expertise we have puts us in an advantageous position to respond to the petroleum demands of the pipeline applicants.

Our first vugraph outlines the format in which we will follow in discussing the applicants, proposed routes, our objectives, the volume estimates of the two current applicants, information they require, and what we see as the Imperial commitment.

The one oil pipeline proposal is being studied by the Beaufort Delta Oil Project. This group consists of the major oil producers who have discoveries in the Delta, and the two main oil pipeline companies in Canada. Their study is in the very preliminary stage and would follow after the gas pipeline. This group has done some previous field testing (as the MacKenzie Valley Pipeline Research Ltd.), and they do not expect to be in a position to start construction until the mid to late 1980's, subject to sufficient reserves being found. We do not propose to go into any further discussion on this proposal, do to the uncertainties involved, except to say that the current gas pipeline studies would probably serve as a jumping off point for the oil pipeline project.

.2 The first gas pipeline proposal we will discuss is the Foothills (or Maple Leaf Project). This company was formed when Alberta Gas Trunk Line Limited broke away from the Canadian Arctic Gas Study Limited group along with Westcoast Transmission. Their stated objective is to offer an all-Canadian alternative to CAGSL. They propose to act as a common carrier in the Northwest Territories with existing systems to be expanded to deliver the gas to markets ,from the Northwest Territories border.

With no vested interest in production on the Delta, this group tends to be more flexible in their time frame, and do not appear to be nearly as far advanced in their organization and planning as the CAGSL group.

1.3 The CAGSL group is a consortium of Canadian oil producers and distributors, in alliance with interested distributors in the United States who wish to move Alaska gas to U.S. markets. These people are now into the National Energy Board hearing stage and propose to commence stock piling and site preparation in the fall of 1976. Although no one will come right out and admit it, the proposal would be hard-pressed to have the green light in time for such a schedule. We should have a more accurate time frame by late spring of this year. As you will see in later vugraphs, the estimated volumes are substantial, and of the two projects, the CAGSL numbers would appear to have the greater credibility

2. 1 The next vugraph shows the approximate routing of the competitive
2 proposals, with the last overlay indicating the existing systems to which
3
4 the gas would flow. The dotted line shows proposed construction if the
CAGSL line goes ahead.

Copies of the brochures supplied by these companies are available at this meeting.

Our objective is to present an acceptable proposal to CAGSL/ Foothills by mid 1976 for all or a portion of their forecast project requirements.

One could ask; why should Imperial undertake a major planning effort now, in view of the pipeline uncertainty and also due to the fact that in the end the requirements may be tendered? In answer, Prairie Industrial Marketing has always been successful with major projects by getting in on the ground floor. Even if the requirement became a tender in the end, the tender was most often written per our specifications thus increasing our chances of success.

There are other tangible reasons why Imperial should make the significant planning effort for this Arctic Pipeline business.

1) Imperial is essentially the only refiner on the Prairies with significant spare capacity.

2) Imperial itself is a participant in one of the pipeline applications.

3) Any planning effort we do now and the resultant succes we will get on the gas pipeline, can be used again for the crude oil pipeline.

4) A delay in either of the gas pipeline construction applications will not significantly change the probable conclusions we will reach in our proposed studies.

5) We will have better expertise and a supply system advantage over our competitors.

6) This early contact will assist us in our market assessments of the support volumes which will also be substantial.

7) Our position of Specialty Products Supply will be enhanced, giving us an edge in gaining this business.

On top of all these advantages, the volumes, as we are about to present them, warrant substantial planning to ensure our profitable participation.

Going back to the Foothills proposal. As shown here, it is really four projects. Foothills in the NWT, AGTL in Alberta, Westcoast in B.C. and TCPL in Saskatchewan, Manitoba and Ontario.

We have pieced together the volumes of overheads supplied by these groups, and the total Maple Leaf estimate are shown on this vugraph. Due to the method of construction, (ie: looping) the volumes are considerably below the CAGSL numbers. We have not included any Ontario construction volumes in these numbers.

5.1 The CAGSL proposal is a completely new line from Delta to the U.S. border. These numbers have actually increased since the first go-

5.2 round and we feel they may be more reliable. The vugraph showing the

5.3 various sections illustrates the various supply methods required. When we get into the detailed supply pattern we may find ourselves in a better supply position than originally envisioned. In our future contacts with the competing groups, we will be attempting to see if we can locate reasons for the large differential, and adjust our input accordingly. EXPLAIN FOUR SECTIONS IN DETAIL

6.1 The applicants have made some specific requests of the oil companies, (particularly Gulf and Imperial), and we feel that these should be answered in the fairly near future. Who Federal[illegible]?

- sources of supply for the various components.
- our total estimated supply capability.
- they wish to use our facilities to the maximum possible degree to avoid building "White Elephant" facilities of their own. This would include the possibility of using trucks over a winter ice road around Norman Wells and possibly north of Ft. Simpson.
- the question of the tankcar availability is of great concern due to the lead times required. Tanktruck availability would also be a problem for the southern section, although this is less likely.
- we are being asked for input on fuel specifications based on both their needs, and our capabilities.

- they both wish to use the oil company expertise to the highest degree to reduce their own personnel commitments.

All of the aforementioned lead to the need for early action on the part of Imperial.

Using the current data given us by CAGSL, we propose that Imperial commit the required manpower to develop a comprehensive proposal for either or both pipeline construction groups by mid 1976.

There are four major areas where commitments will have to be made; Logistics, Marketing, Transportation and Specialties. Specialties is broken out separately to emphasize the importance of this activity. We have made a list of activities which we think should be conducted by each group. The lists are meant to show the kinds of activities, and not the total effort, as we expect the participants will have many more good suggestions to contribute.

All of these actions would then contribute toward meeting our stated objective.

ORGANIZATION AND MANPOWER

Because of the scope and timing of the project, there will have to be representation by all the departments at both the Central Office and Region level. We have suggested that a Region Industrial Marketing person be the co-ordinator for the Region Marketing, Transportation and Logistics shorter term activities. This was recently approved. As well, this Marketing person would be a member of the Central Office Planning group which would consider the long term effect and the company policy implications.

The Region Marketing person sitting on both groups and also being the major pipeline group contact, should enhance communication and allow all the groups to move in the most effective direction towards the end objective.

This Industrial Marketing person will have to contribute approximately three months time in the next six months. This three months time will be spent in co-ordinating the Region group, in customer contact and in performing as part of the Central Office group.

The time for the other members of the group at both the Region and Central Office levels will vary and will have to be determined after they have been named, and had a chance to consider the activities required. In total though, we would expect to see approximately two man years of work to be completed in the next six months.

RECOMMENDATION

Now that you have seen the proposal, what we are seeking today is a commitment from each group for the manpower required.

WESTERN ARCTIC PIPELINE PROPOSALS

1. PARTICIPANTS - WHO, WHAT, WHEN, STATUS

    1.1 Beaufort Delta Oil Project
    1.2 Foothills Pipelines Ltd.
    1.3 Canadian Arctic Gas Study Ltd.

2. PROPOSED ROUTES - (GAS LINES)

    2.1 Map of Continent
    2.2 Foothills Proposal
    2.3 C.A.G.S.L.
    2.4 Total North American System

3. IMPERIAL OIL OBJECTIVE

    3.1 Objectives
    3.2 Why?

4. FOOTHILLS PROPOSAL

    4.1 Route & Sections
    4.2 Total Overhead Volumes

5. C.A.G.S.L. PROPOSAL

    5.1 Route & Sections
    5.2 Total Project Volumes
    5.3 Volumes By Section -- Overheads

6. INFORMATION REQUIRED BY APPLICANTS

7. I.O.L. COMMITMENTS REQUIRED

    7.1 Major Commitment Areas
    7.2 Organization and Manpower

BEAUFORT DELTA OIL PROJECT

1. PARTICIPANTS

- Imperial Oil Ltd.
- Gulf Oil Canada Ltd.
- Shell Oil Canada Ltd.
- Interprovincial Pipeline Co. Ltd.
- Trans Mountain Oil Pipeline Co. Ltd.

2. OBJECTIVE

- To construct an oil pipeline from the MacKenzie Delta to Southern Markets.

3. TIMING

- Mid to late 1980's.

4. STATUS

- Study group has been formed with head quarters in Calgary.
- Studies are an extension to previous research by MacKenzie Valley Pipeline Research Ltd.
- I.O.L. has established initial contacts.
- No petroleum product estimates as yet.

THIS PROJECT WILL NOT BE STARTED UNTIL GAS LINE IS COMPLETED.

FOOTHILLS PIPELINES LTD.

(Maple Leaf Project)

1. PARTICIPANTS ("SPONSOR COMPANIES")

   - 80% Alberta Gas Trunk Line Co. Ltd.
   - 20% Westcoast Transmission Co. Ltd.

2. OBJECTIVE

   - To present an "All" Canadian alternative to CAGSL.

3. TIMING

   - Similar to CAGSL - gas on stream fall 1981.
   - Less concerned with timing.
   - No production.

4. STATUS

   - Location of right-of-way established.
   - Organization in place (Head Quarters at Calgary).
   - Rough estimates of fuel requirements in place.
   - Timing of project established (Flexible).
   - Now before National Energy Board.

CANADIAN ARCTIC GAS STUDY LTD.

1. PARTICIPANTS

- Major oil and gas producers and marketers.
- U.S. pipeline companies.

2. OBJECTIVE

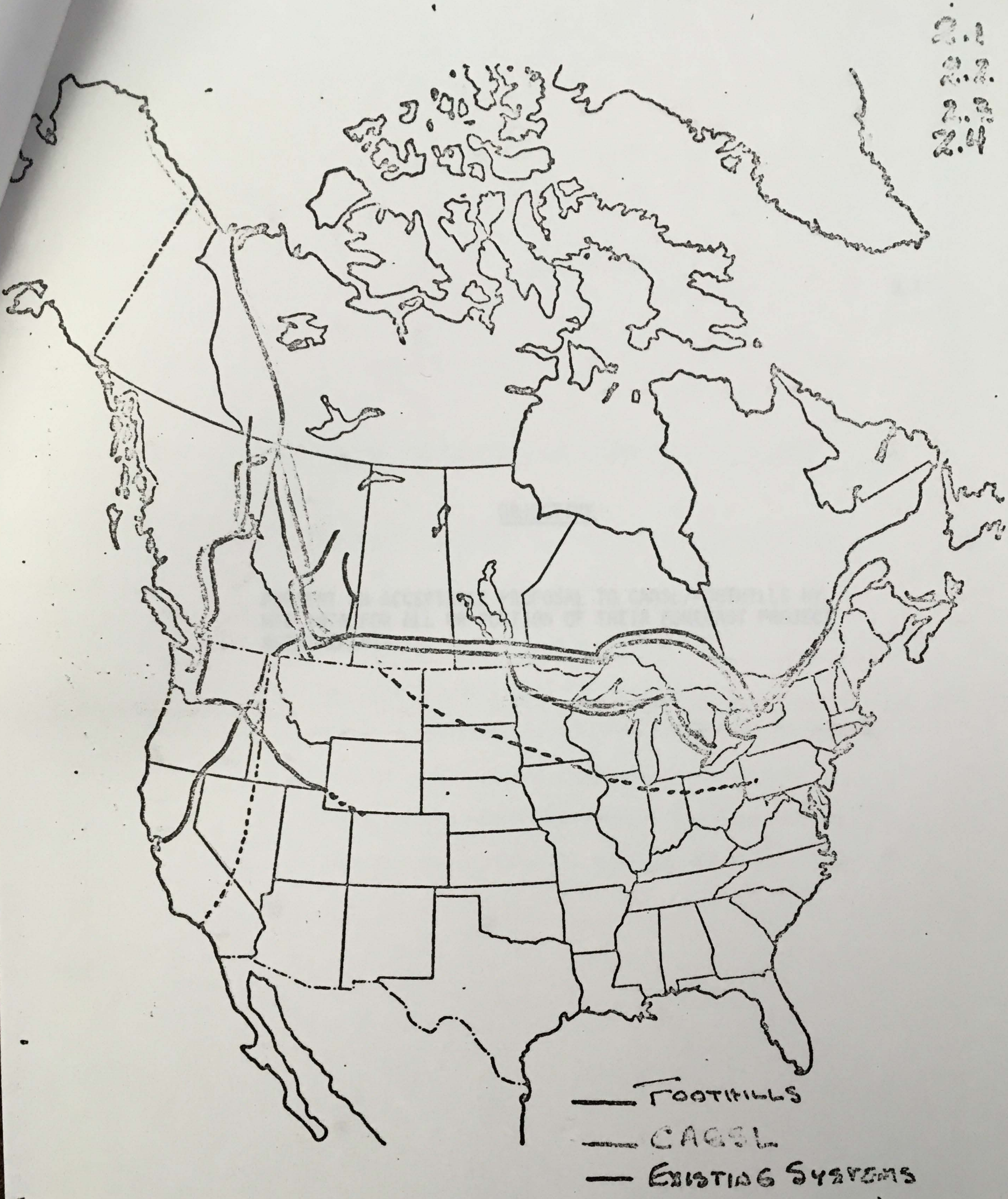
- Move Arctic Gas to Southern Markets.
  (Both Alaskan and Delta Gas)

3. TIMING

- Site preparation proposed - fall 1976.
- Completion of line - summer/fall 1981.
- Project could be set back on a yearly basis.

4. STATUS

- Location of right-of-way established.
- Organization in place - (Head Quarters in Calgary).
- Fuel estimates established.
- Proposal before National Energy Board.


2.1
2.2
2.3
2.4
FOOTHILLS
CAGSL
EXISTING SYSTEMS
PROPOSED (CAGSL)

OBJECTIVE

PRESENT AN ACCEPTABLE PROPOSAL TO CAGSL/FOOTHILLS BY MID 1976 FOR ALL OR PORTION OF THEIR FORECAST PROJECT REQUIREMENTS.

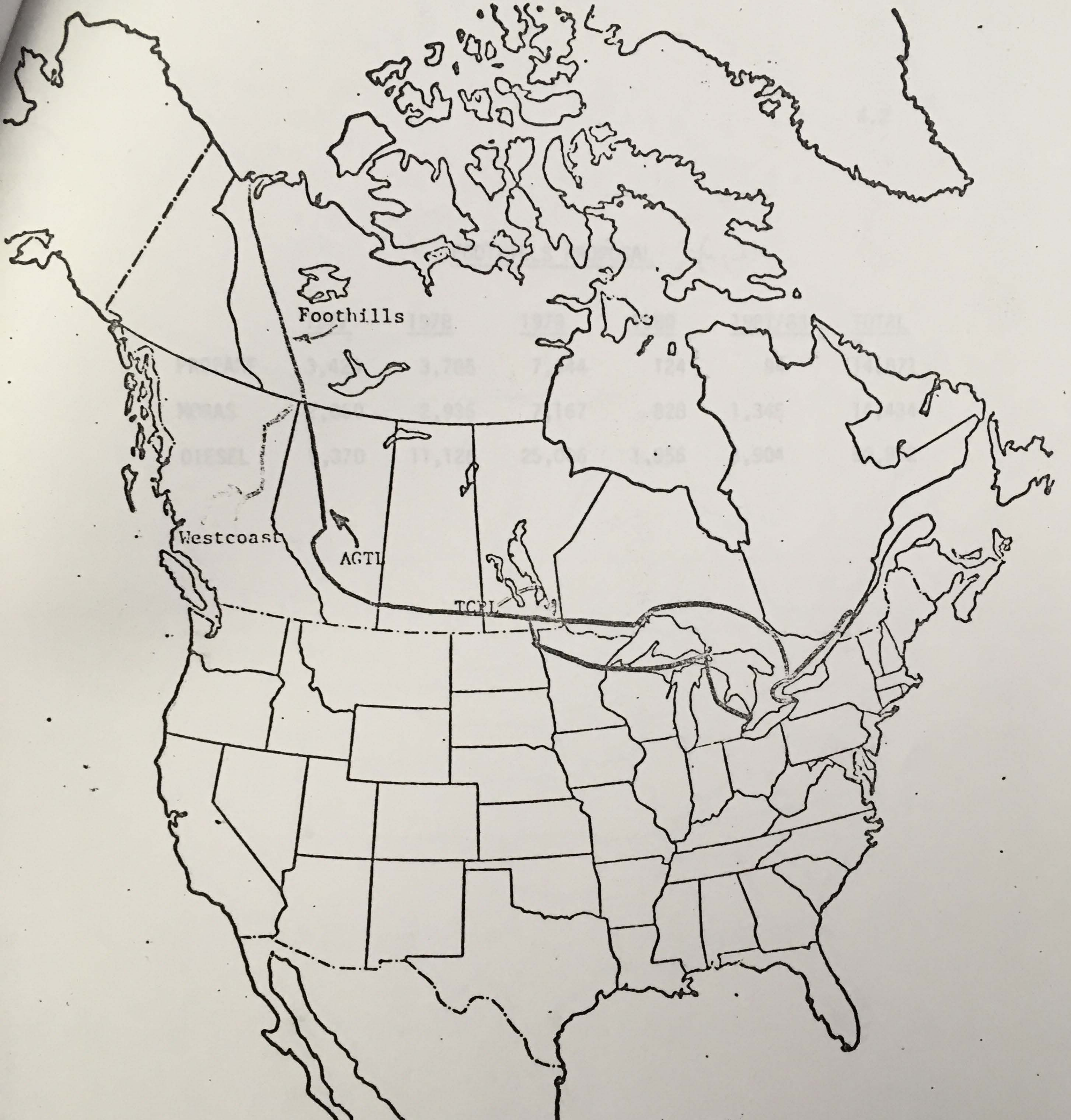
WHY IMPERIAL SHOULD UNDERTAKE MAJOR PLANNING EFFORT

(A) - Imperial successful by getting in on ground floor.

(B) - Only refiner with spare capacity.

- Participant in one of P/L applications.
- Gas pipeline work used for crude P/L.
- Delay in applications will not affect conclusions.
- Current expertise and supply system advantage.
- Early contact identifies support volumes.
- Improves our position in specialty products.

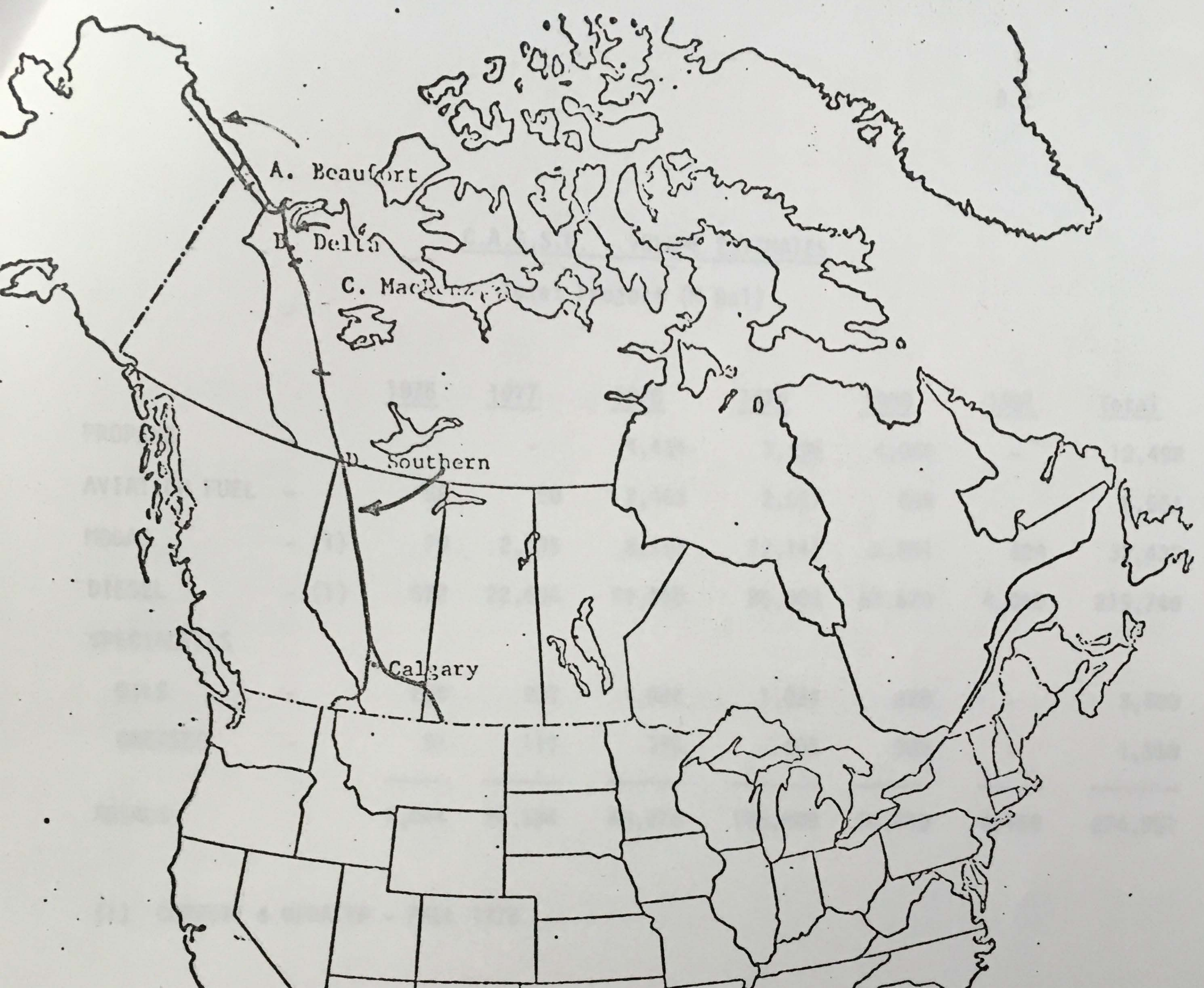
FOOTHILLS PROPOSAL



FOOTHILLS PROPOSAL (m gal)

	1977	1978	1979	1980	1981/83	TOTAL
PROPANE	3,424	3,785	7,444	124	94	14,871
MOGAS	2,060	2,936	7,167	828	1,345	14,434
DIESEL	9,370	11,126	25,006	1,856	3,904	50,962

C.A.G.S.L. - ROUTES



C.A.G.S.L. - VOLUME ESTIMATES

Total Project (M Gal)

		1976	1977	1978	1979	1980	1981	Total
PROPANE	-	-	-	4,434	3,996	4,068	-	12,498
AVIATION FUEL	-	58	58	2,463	2,027	938		5,554
MOGAS	- (1)	79	2,535	8,397	12,141	5,851	429	32,432
DIESEL	- (1)	572	22,604	52,860	86,003	53,670	4,040	219,749
SPECIALTIES								
OILS	-	238	282	1,026	1,034	820	-	3,400
GREASES	-	97	115	395	408	303	-	1,318
TOTALS		1,044	25,594	69,575	105,609	68,650	4,469	274,951

(1) CURRENT & UPDATED - FALL 1975

VOLUMES EXCLUDE:

- RAIL, BARGE, AVIATION SUPPORT
- GAS PLANT CONSTRUCTION
- OTHER SUPPORT INDUSTRY & GROWTH

OVERHEAD VOLUMES

(By Supply Area) M Gal.

	1976	1977	1978	1979	1980	1981	Total
A - BEAUFORT -	(Barge Supply Summer)						
Mogas -	79	636	1,828	1,930	1,440	-	5,913
Diesel (P-50)-	572	5,170	10,562	12,316	8,334	-	36,954
B - DELTA -	(Barge Supply - Summer, Truck Ex Whitehorse)						
Mogas -	-	-	1,316	2,488	1,816	-	5,620
Diesel (P-50)-	-	-	12,556	23,728	9,740	-	46,024
C - MACKENZIE -	(Barge Supply - Summer, Ice Road Ex N. Wells, Ft. Simpson)						
Mogas -	-	1,272	1,119	3,558	3,420	-	9,369
Diesel (P-50)-	-	12,669	10,215	22,725	18,429	-	64,038
D - SOUTHERN -	(T/W Availability)						
Mogas -	-	636	4,063	4,141	2,183	370	11,395
Diesel (1) -	-	4,751	19,468	27,219	16,950	4,041	72,430

(1) SOME SEASONAL & ADJUSTED

INFORMATION REQUIRED BY APPLICANTS

- SOURCE OF PRODUCT SUPPLY
- TOTAL SUPPLY CAPABILITY - TO PROJECT
- DELIVERY CAPABILITIES - BARGE SUPPLY - EX HAY RIVER
  - VANCOUVER SUPPLY - BARGE N. SLOPE
    - VIA DEMPSTOR HIWAY
  - T/C & T/T SUPPLY
- EXISTING FACILITY USAGE - HAY RIVER
  - NORMAN WELLS
  - INUVIK
  - OTHER
- T/C AVAILABILITY - (UNIT TRAIN?)
- T/T AVAILABILITY
- FUEL SPECIFICATION RECOMMENDATIONS
- OTHER ADVICE TO CUSTOMER

MAJOR COMMITMENT AREAS

- Logistics
- Marketing
- Transportation
- Specialties

ORGANIZATION & MANPOWER

- REPRESENTATION OF ALL DEPARTMENTS AT REGION & CENTRAL OFFICE LEVEL.

- REGION INDUSTRIAL MARKETING

  (a) COORDINATE REGION MARKETING, LOGISTICS, TRANSPORTATION SHORTER TERM ACTIVITIES.

  (b) MEMBER OF CENTRAL OFFICE PLANNING GROUP TO CONSIDER LONG TERM EFFECT AND POLICY IMPLICATIONS.

- TIME PERIOD - NEXT 6 MONTHS

  MANPOWER COMMITMENT - 2 MAN YEARS

  REGION INDUSTRIAL MARKETING - 3 MONTHS

incentives for anyone to stay off welfare.

He also said that a lot of welfare money is going into the liquor stores.

Mr. Ernerk said one or two people may be abusing the system but he said that didn't apply to most welfare recipients.

He also said that social

Councillor Don Stewart (Hay River) opposed the motion because it is contrary to the NWT Act.

He said he would propose a motion recommending the changes but said "it is improper to call ourselves something we

the legislat... legislative ... legislature.

The moti... all future f... council w... legislative ...

"We need a refinery"

The administration has been asked to consider a small oil refinery to meet territorial needs.

Councillor Dave Nickerson (Yellowknife North) said in council Feb. 6 that unless such an operation is built, refined oil will have to be shipped in from Alberta by 1980.

Mr. Nickerson said Imperial Oil has no plans to expand Norman Wells refinery and the operation will soon be unable to completely supply western NWT markets.

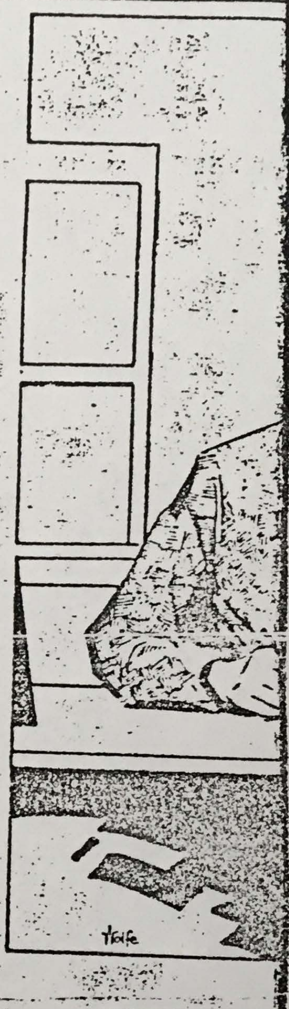
"It would be wise for the department of economic development to come up with a mini-oil refiner," said the Yellowknife North councillor, "which of course would be operated by private enterprise."

Imperial Oil's current facilities operate from 32 wells and produced one million barrells of refined oil in 1974.

Deputy commissioner John Parker was pleased with the suggestion and promised the department will look into it.

SINGER

News of the North
Feb 11/76 Page 7



Than...

WHOLESALE ... FUEL PRODUCTS ...

MAR 10 1976

	CIRC.	COPY	ACTION
GNJ			
JMB			
DSM			
JPI			
IGW			
RAH			
JWB			
JDC			
RFR ✓			

March 15, 1976

Messrs. R. Horsfield, Calgary
G.A. Fullerton, Edmonton

For your information in case you haven't seen the above article.

R.F. ROBLIN

RFR/ldl

cc: G.N. Jenkins
C.E. Langston

RECEIVED
MAR 15 1976
G.N. JENKINS

MEMORANDUM MARKETING DEPARTMENT

RECEIVED
MAR 18 1976
G. N. JENKINS

March 17, 1976

1975 Norman Wells "RED BOOK"

Mr. G.N. Jenkins
Room 1836

I attended a meeting on March 12 with members of Exploration, Production, Logistics and Comptrollers Departments, to review the 1975 Norman Wells "Red Book", and authorize the payment to the Government for their 1/3 share of the crude and the 5% royalty on our 2/3 share. Mutual agreement was received to approve the payment of $1,449M.

Attached are the highlights of the 1975 operation and minutes of the meeting by Don Macgregor and a memo from Barry Rosser. Logistics are re-working the 1975 earnings and return because we cannot understand why, in view of the $1.19 per barrel 1975 increase in crude value, the 1975 return is 0.1% lower than 1974, both years on the unfavourable tax assumption, but 1975 return is 1.9% higher than 1974, both years on the favourable tax assumption.

R.F. Roblin

R.F. ROBLIN
Product Advisor

RFR/ldl

Attach.

cc: R. Horsfield, Calgary
G.A. Fullerton, Edmonton
J.M. Bedard
C.E. Langston, Ottawa
J.A. Stewart

MEMORANDUM EXPLORATION DEPARTMENT

	CIRC.	COPY	ACTION
GNJ			
JMB			
DSM			
JPI			
IGW			

MAR 8 1976

March 8, 1976

Contract File: NC-3A

Messrs. R.J. French - Logistics
R.F. Roblin - Marketing
R.G. Wilson - Production

RFR

Norman Wells Operations - 1975

Attached is a copy of the Norman Wells 'Red Book' for 1975. The highlights are:

Net Crude Oil Production - 637 M barrels.
Up 32 M barrels from 1974.

Crude Oil Value after providing for local consumption, losses, and Refinery and Marketing expenses - $4.51 per barrel.
Up 36% over 1974.

Production Operations Costs - $673 M.
Up 28% from 1974.

Refinery Costs - $1935 M.
Up 8% from 1974.

Payment to Government - $1449 M.
Up 46% from 1974.

A meeting has been scheduled to review the 1975 'Red Book' on Friday, March 12th, 1976, at 9.30 a.m. in Room 744-C. It would be appreciated if you will attend the meeting or arrange for an alternate in order to authorize on behalf of your department the 1975 payment to the Government.

Mr. Del Marble (Western Comptroller's), the author of the 1975 'Red Book' will be present at the meeting. Mr. Marble will report on 1975 operations and discuss the contents of the 'Red Book'.

PETER STAUFT

By: Copy (Original Signed) J. D. Macgregor
J.D. Macgregor

JDM/ajm
Att.

cc - Mr. R.J. Madeley - Comptroller's

CONTRACT FILE NC-3A
NORMAN WELLS OPERATIONS
1971-1975

		1971	1972	1973	1974	1975
A.	NORMAN WELLS RED BOOKS					
1.	Gross sales realization from products sold	4065095	6494918	6354548	6622037	9590082
2.	Resultant crude oil evaluation (1)	1.52845	1.0788	2.3657	3.3206	4.5064
3.	Gross oil production:					
	Production - Bbls.	939151	890067	962733	954606	1006069
	$/Bbl.	1.52845	1.0788	2.3657	3.3206	4.5064
	Value	1435445	960204	2277490	3169865	4533749
4.	Gross gas production:					
	Production - MCF	299204	351596	276953	306566	308670
	$/MCF	0.413	0.4145	0.4183	0.4212	.4249
	Value	123566	145727	115845	129134	131154
5.	Total value of crude oil and gas produced	1559011	1105931	2393335	3298999	4664903
6.	Producing costs - operating and development	502733	925832	797017	585369	713975
7.	Government 1/3 share:					
	1/3 value of oil & gas produced	519671	368644	797778	1099666	1554966
	Add 5% royalty on Imp. 2/3 share	51967	36864	79779	109966	155499
	(Less) 1/3 producing costs	(167577)	(308611)	(265673)	(195123)	(237992)
	(Less) 10% mgmt. fee on 1/3 producing costs	(16771)	(30941)	(26588)	(19531)	(23837)
	TOTAL	387290	69596	585296	994978	1448636
8.	Imperial 2/3 share					
	2/3 value of oil & gas produced	1039340	737287	1595557	2199333	3109937
	(Less) 5% royalty	(51967)	(36864)	(79779)	(109966)	(155499)
	(Less) 2/3 producing costs	(335155)	(617221)	(531344)	(390246)	(475983)
	Add 10% govt. mgmt. fee on 1/3 producing costs	16771	30941	26588	19531	23837
	Add (less) inventory adj.	(47891)	54943	(115021)	(9974)	(130748)
	TOTAL	621098	169086	896001	1708678	2371544

B. IMP. CORP. RESULTS - P&L

	1971	1972	1973	1974	1975
1. Earnings before tax Imp. 2/3 share	621098	169086	896001	1708678	2371544
Add Imp. 2/3 share of processing fee	304000	300000	317000	324000	330000
(Less) depreciation	(38000)	(93000)	(112000)	(115000)	(105000)
(Less) general exp. & admin.	(183000)	(214000)	(206000)	(214000)	(245000)
EARNINGS BEFORE TAX	704000	162000	895000	1704000	2352000
2. Net earnings (Less) income tax	(250000)	(64000)	(310000)	(739000)	(1263000)
NET EARNINGS	454000	9800	585000	965000	1089000
3. R.O.C.E. Estimated cap. employed	7391000	7849000	8752000	10039000	11481000
Return on cap. employed	6.1%	1.2%	6.7%	9.6%	9.5%
				10.5%	12.4% FAV. TAX

NOTE 1: Net sales realization after deducting freight, Canada sales tax, additive costs, products consumed, refinery and marketing losses, allowable refining and marketing expenses. Includes steel drum depreciation expense as originally calculated.

NORMAN WELLS PRODUCTION AGREEMENT COMMITTEE

March 12, 1976

R. J. French - Logistics (Jon Hagen attended)
R. F. Roblin - Marketing
R. G. Wilson - Production
R. J. Madeley - Comptroller's
Del Marble - Comptroller's (Western)

J. D. Macgregor

1. Del Marble reviewed 1975 operations:

Well Head value of crude oil and gas produced	$ 4.6 MM
(Less) Producing Costs	(.7)
Govt. 1/3 share after sharing producing costs, management fee and adding 5% royalty on Imp. 2/3 share	1.5 MM
Imp. 2/3 share after sharing producing costs, paying royalty and providing for inventory adjustment	2.4 MM

2.

Imperial Earnings before Tax	$2,352,000
Tax (incl. tax on Govt. Share!)	1,263,000
Imperial Net Earnings	$1,089,000
ROCE	9.5%

3. Time spent on preparation of 1975 Red Book - 203 man days

4. Unanimous approval of committee to remit $1,448,636 to Government of Canada as Government's share of 1975 operations.

J. D. Macgregor

c.c. Messrs. R. J. French
R. J. Madeley
R. F. Roblin
R. G. Wilson

M E M O R A N D U M

MARKETING DEPARTMENT

Edmonton, Alberta
March 10, 1976

Norman Wells Red Book

Mr. R.F. Roblin
Product Advisor

TORONTO OFFICE

Bob:

In a recent discussion on the above with Mr. Fullerton, we noted that the Crude Value at Norman had increased by $1.19 per barrel versus the previous year. This works out to about 3.4¢ per gallon improvement over 1974. Since our posted price increase was only effective for less than ½ the year, this recovery might seem high except for the following:

1) An increased % of Turbo B sales ex Norman Wells affected the revenue available. The selling price bears a relationship to Edmonton plus bridging.

2) Heavy Fuel Oil - was all priced at the 4.0¢ increase (5811MG).

3) Furnace Fuel Oil - all barge sales priced at the 4.0¢ increased price (3232M Gallons out of 6279M Gallons). The GNWT also paid 1.0¢ premium for P-50 on 2343M gallons in 1975. The increase in Furnace Sales and a corresponding decrease in Diesel sales was due to the GNWT ordering Heating Oil P-50 in 1975 as compared to Diesel Fuel P-40 tax exempt in 1974.

4) Diesel Fuel Oil - 300MG sold to N.C.P.C. at Norman Wells prior to price increase. Diesel sales volumes down as noted in Item 3; hence revenue down as well and replaced by Furnace revenue.

In general our sales realization in 1975 looked good due to:

- large % of sales to barges F.O.B. Norman which all received the increase of 4.0¢/gallon.
- increased Turbo utilization ex Norman.
- agency sales were a low % and lateness of the increase (August 15, 1975) did not appreciably pull down revenues.

B.G. Rosser

BGR/rk
cc: G.A. Fullerton
P.J. Fenton

MEMORANDUM FROM
GEORGE N. JENKINS

May 14, 1976

Mr. R.F. Roblin,

I agree; please keep me advised.

G. N. J.

Refer:
Your memo May 11/76 to R.T. Dobson
Corporate Affairs re:
Lease of Government Facilities
Churchill, Manitoba

DEPARTMENT

RECEIVED
MAY 13 1976
G.N. JENKINS

RFR,
I agree.
Please keep
me advised.
GNJ

76

Government Facilities
, Manitoba

attached is a draft of
recommendation of Imperial's
Government's petroleum

be sent stating Imperial's
Works and other involved
, Environment Canada,
s and possibly Manitoba
ment is drafting the subject
eturn from Atlantic Region

to the attached draft
xecutive and Department

IN

Attach.

cc: B.E. Brophy
G.N. Jenkins
J.A. Stewart
C.E. Langston

MEMORANDUM MARKETING DEPARTMENT

RECEIVED
MAY 13 1976
G. N. JENKINS

May 11, 1976

RFR, I agree. Please keep me advised. GNJ

Lease of Government Facilities
Churchill, Manitoba

Mr. R. T. Dobson
Corporate Affairs
Room 1535

Pursuant to our meeting May 7th, attached is a draft of a memorandum on the current situation and recommendation of Imperial's position regarding the lease of the Federal Government's petroleum storage facility at Churchill, Manitoba.

It is recommended that a letter be sent stating Imperial's position to the Deputy Minister of Public Works and other involved Government departments: Supply & Services, Environment Canada, Transport Canada, Indian & Northern Affairs and possibly Manitoba Government. Bert Brophy of our Law Department is drafting the subject letter and it will be available upon his return from Atlantic Region May 13.

Your comments regarding changes to the attached draft memorandum and distribution of it to the Executive and Department Managers would be appreciated.

R.F. ROBLIN

RFR/ldl
Attach.

cc: B.E. Brophy
G.N. Jenkins
J.A. Stewart
C.E. Langston

DRAFT MEMORANDUM

May 11, 1976

Summary Re: Churchill, Manitoba

- o IOL lease Crown's storage facilities.
- o Lease expires August 31/76.
- o Government called tenders for 3 to 5 year period.
- o IOL only tender received on supply by Marine tanker: most economical method.
- o Crown's facilities do not meet safety and environmental standards.
- o Imperial's tender stated that as a condition precedent to entering into a lease that the Government must improve the facilities.
- o Estimated cost: $1MM to $1.5MM.
- o The Crown (D.P.W.) will make the necessary expenditures but wish to recover by a rental fee the expenditures each year.
- o IOL position is that this condition was not part of the tender; it would make IOL non-competitive, and it is therefore not acceptable.
- o The Crown (D.S.S. and D.P.W.) request a letter from IOL stating our position and justification for it.
- o As a result of the oil spills at Resolute, N.W.T., in 1972 and our Corporate environmental attitude, IOL is not prepared to ship-in this summer or store product after our lease expires if the facilities continue to be in the existing condition.

DRAFT

May 11, 1976

Situation Re: Churchill,
Manitoba

Imperial's lease with the Department of Public Works of the Crown's storage facilities at Churchill, Manitoba, and the supply of petroleum product to the Government and private consumers from these facilities expires August 31, 1976. The Government departments and agencies purchasing product under this lease are: Government of Northwest Territories, Northern Canada Power Commission, Ministry of Transport, Department of Public Works, National Harbours Board, Dept. of National Defence, Manitoba Hydro, and others. The basis of pricing to the Government is at cost plus a return on capital employed in inventory and receivables, and to the private sector it's at posted price. The Government volume represents 74% of the total volume of 265MB and 52% of the Government volume is shipped from Churchill by Northern Transportation (a Crown corporation) to supply 6 Keewatin Communities on the northern west coast of Hudson Bay. Product supply is import finished product from Aruba with the exception of the Turbo Fuel B which is tank car from Winnipeg. Shell is a competitor to Imperial on the private sector as they have an agency at Churchill on rail supply.

Discussion and correspondence began in November 1974 with the Department of Public Works regarding Imperial's concerns with safety and environmental deficiencies of the Crown's facilities. In August 1975

Imperial presented to the Department of Public Works a detailed report of the deficiencies and a request that the Department take early action to improve the facilities. Prairie Transportation made numerous requests to meet with Department of Public Works and finally achieved a single meeting at which the Department indicated no interest in improving the facilities.

In December 1975 the Department of Supply & Services called tenders for a 3 to 5 year period beginning September 1, 1976 for the operation of the facilities and supply of the Government's petroleum products requirements, and the right to sell to the private sector from the facilities. Imperial submitted a tender at the required date and it was the only tender the Department received on marine supply. On rail supply, tenders were from Imperial and Pacific Petroleum. The tender analysis doen by the Department of Supply & Services indicated that marine supply was far more economical. Included in Imperial's tender was the clause, "It is a condition precedent to Imperial Oil Ltd. entering in to any lease arrangement for the facilities herein contemplated that the facility deficiencies outlined in Imperial Oil Limited's to Department of Public Works, dated August 26, 1975, and subsequent letters on the same topic to be rectified to the satisfaction of Imperial Oil Limited". It is our understanding that Pacific Petroleum identified environmental concerns about the facilities in their tender.

Imperial were asked to attend a meeting in Ottawa on March 10 to discuss our tender with the Dept. of Supply & Services and the Dept. of Public Works. Imperial were agreeable, but at the last minute

the Government cancelled the meeting. A subsequent meeting was held April 28 between representatives of Public Works and Supply & Services, and Imperial. Imperial personnel present were: Messrs. C.E. Langston. R.F. Roblin from Wholesale Division of Marketing, B.E. Brophy of the Law Department and J.J. Lyons of Prairie Transportation Department. At this meeting the Department of Public Works took the position that they would make the necessary expenditures estimated at $1,422M over a 3-year period. However, since they would fund this through a revolving account, it would require reimbursement by Imperial by means of a thruput fee or rental charge on Imperial's total volume to recover each year the expenditure made each year. With the assumption of no volume growth or loss, the resulting charge would be 3.2¢/gal. the first year, 9.5¢/gal. the second and 2.6¢/gal. for the third year.

Imperial's position at the meeting was that their proposal was unacceptable because it was not a condition of the tender, it would make Imperial non-competitive in the private sector and Keewatin Communities and the resulting loss of substantial volume. Department of Supply & Services thought it might be possible for them to obtain funds from Environment Canada to correct the environment deficiencies and amortize the expenditure over the life of the facilities. Prairie Transportation are segregating necessary environmental expenditures and will do their utmost to arrange a meeting as quickly as possible with Public Works in Edmonton.

Imperial have chartered 2 vessels for Churchill supply ex. Aruba thisyear as part of the Eastern Arctic Supply plan. It is possible to cancel the supply for Churchill but Imperial would incur additional freight costs to other Arctic locations and would possibly be limited in 1977 to the 1976 import volume. Imperial have ordered a new truck and semi-trailer specially sized for Churchill, and would have difficulty finding an alternate use for it, with the likelihood of having to sell it at a loss.

In 1972 Imperial had a sad experience at Resolute, N.W.T. as a result of two oil spills into Arctic waters from broken pipes from the Crown's facilities leased to Imperial. These occurences received wide press exposure and the case with the Crown is still in litigation. The Crown (Ministry of Transport)were advised in 1971 of deficiencies in the facilities but due to Government budget problems little or no attention was given by the Government until after the spills occured.

Because of the experience gained at Resolute, it is our position that we should take a strong stand in our lease negotiations on the Churchill facilities and therefore recommend that Imperial is not prepared to ship-in this summer or store product and operate the Crown's facilities after our lease expires August 31/76 if the Crown do not improve the facilities to an environmentally safe condition. Our estimated cost of the work required this summer is $550M and it is possible to do if the Government gets moving quickly. In addition, we recommend that Imperial should not have to pay a rental fee.

R.F. Roblin, Marketing
B.E. Brophy, Law

M E M O R A N D U M / MARKETING DEPARTMENT

RECEIVED
MAY 19 1976
G. N. JENKINS

May 19, 1976

Churchill Situation

Mr. W. A. West
Room 1830

The attached draft letters have been prepared by Messrs. B.E. Brophy, C.E. Langston and the writer, and have been directed to Mr. A.P. Bell who will circulate them to the Executive and Department Managers for comments. A summary of the situation at Churchill and recommended course of action was prepared by the writer and circulated last week by Corporate Affairs Department.

In view of the urgency of the situation because of construction deadlines and the Department of Supply & Services request that Imperial should present its position strongly to the Deputy Minister of Public Works and other Government departments that receive product at Churchill, and to expedite action by the Government, it is recommended that these letters, or changes to them, be mailed this Friday.

A decision will have to be made regarding who should sign the letter to the Deputy Minister of Public Works.

R.F. Roblin/ldl
R.F. ROBLIN

RFR/ldl

Attach.

cc: G.N. Jenkins
J.M. Bedard
J.A. Stewart

Mr. G. B. Williams,
Deputy Minister of Public Works,
Tower 7,
Sir Charles Tupper Building,
Riverside Drive, Ottawa
K1A 0M2

Dear Sir,

Re: Public Works Facility at Churchill, Manitoba

The Government of Canada is the owner of a petroleum storage facility, i.e. P.O.L., which facility has been administered by your Department in recent years. For approximately twenty years Imperial Oil Limited has occupied this facility pursuant to various supply contracts entered into between Imperial and the Government of Canada, the present arrangement expiring on the 31st day of August, 1976.

On the 26th day of August, 1975, by letter addressed to Mr. R. G. Harding, Senior Project Manager, Churchill Development, Department of Public Works, Program Implementation Branch, Sir Charles Tupper Building, Ottawa, Imperial advised your Department that this facility was unacceptable from an environmental and safety point of view. Attached to this letter was a detailed engineering report outlining the deficiencies in the facility and a cost estimate prepared by us indicating possible costs of upgrading tne facility to acceptable standards.

On the 28th day of January, 1976 Imperial submitted a tender to The Secretary, Supply Administration, Department of Supply and Services, 10th Floor, Gillin Building, 141 Laurier Avenue West, Ottawa, Ontario relating to the supply of the Government of Canada's

.../2

petroleum products required from this location and some of the terms and conditions relating to the lease of the facility. This tender was made subject to the following condition precedent: that the facility be upgraded to an acceptable standard from an environmental and safety point of view.

Imperial attempted on a number of occasions to arrange for meetings with members of your Department, and in fact succeeded only on two occasions. On the 28th day of April, 1976 personnel of Imperial met in Ottawa with personnel of the Department of Supply and Services, and personnel of your Department to discuss a proposal emanating from your Department relating to the upgrading of this facility. This proposal was unacceptable to Imperial as it required an additional thruput fee to be attached to each gallon of product sold through this location, which thruput fee would in itself be subject to the Anti-Inflation Guidelines, and cause Imperial, on its commercial side of the business, to be non-competitive with other suppliers in the area. The thruput fee would also have a substantial effect on other Governmental business handled from this location and could possibly result in the loss of Government volume ex Churchill of direct shipments to the Keewatin Communities by tanker/barge out of Montreal or some other eastern Canadian refinery centre. It is our understanding that your Department's policy is that for budgetary reasons you will not spend any monies on this facility unless you can recapture the monies spent, dollar for dollar, from the facility in the year in which your monies were first expended. This proposal, and the budgetary reasons on which the proposal is based, are unacceptable to Imperial. For your information, I attach hereto a copy of a

letter dated the day of , 1976 addressed to Mr. J. N. Courtney, Director, Transportation and Engineering Branch, Commercial Supply, Department of Supply and Services, MacDonald Building, 123 Slater Street, Ottawa, Ontario, K1A 0S5, outlining in some detail our response to the proposals made during the meeting of the 28th day of April, 1976.

At the meeting of the 28th day of April 1976 Department of Public Works personnel undertook to arrange for the release to Imperial of an environmental report, which was prepared on behalf of the Department, and a fire marshall's report relating to the facility. Please be advised that these reports have not been received by Imperial as of this date. Mr. J. J. Lyons, Manager Planning/Economics, Prairie Region Transportation Department, has been attempting to meet with your Edmonton personnel to review the priorities and the budgetary matters involved in the deficiencies at this location. However, once again, he has had no success.

In recent years we have been carrying out a comprehensive program of upgrading our own facilities to comply with Imperial's own standards and with the various environmental and safety laws as they exist in Canada. We have already spent several millions of dollars in completing a program in the Arctic and Sub-Arctic areas. We feel that we would be in dereliction of our corporate duty to protect the environment of Canada if we were to operate the Federal Government facility located at Churchill, Manitoba when we know that it does not comply with existing environmental and safety standards. The question of liability for damages

which could arise as a result of the operation of facilities which do not meet environmental and safety standards is an area of great concern to us, in spite of the fact that many people, including the Governments of the North West Territories and the Province of Manitoba, rely upon us as a supplier of petroleum products from this site. We have learned from bitter experience the folly of carrying on a business from less than adequate facilities, and I would draw your attention to the problems and litigation which have arisen from the Imperial operation of a Federal Government facility in Resoluate Bay, North West Territories in 1972, where in fact we advised the Ministry of Transport that their facility did not meet the environmental standards and they were not prepared to do the necessary work for similar budgetary reasons. Imperial has no desire to be involved in a repetition of this matter at a different site and for this reason finds that it is necessary to take the following action:

1. Unless your Department or some other department of the Government of Canada is prepared to advise Imperial by the 15th day of June, 1976 that it has allocated the required funds and has entered into contracts to bring the facility in question up to an acceptable environmental and safety standard, we will advise the Department of Supply and Service that the condition precedent in our tender dated the 28th day of January, 1976 has not been complied with, and Imperial has no obligation under that tender;

2. We will cease to carry on the operation of the Government's petroleum facility at the Churchill, Manitoba location as of the 31st day of August, 1976, the termination date of our present contractual relationship; and

3. We will not place additional product in that location this shipping season.

Imperial Oil regrets the necessity for setting a deadline date and for stating the case as bluntly as outlined above, but because of the urgency of time and continuing indications of delaying tactics by those responsible for the Churchill terminal, we believe we have no alternative. Imperial personnel will be available for discussions at your convenience.

Yours very truly,

c.c.: Mr. J. M. Des Roches,
Deputy Minister of Supply & Service

Mr. J. B. Seborn,
Deputy Minister of Environment Canada

Mr. A. Kroeger,
Deputy Minister of Indian & Northern Affairs

Mr. S. Cloutier,
Deputy Minister of Transport

BEB/as

D R A F T
May 18, 1976

Mr. J. N. Courtney,
Director,
Transportation & Engineering Branch,
Commercial Supply,
Department of Supply & Service,
MacDonald Building,
123 Slater Street,
Ottawa, Ontario, K1A 0S5

Dear Sir,

Re: Churchill, Manitoba
Your File: TEB 7010-2-2

During an April 28th meeting among personnel of the Department of Supply and Service, Department of Public Works and Imperial Oil Limited various matters concerning the leasing of facilities at Churchill, Manitoba and the supply of petroleum products were discussed. Imperial Oil expressed certain concerns about D.P.W.'s approach to the upgrading of the facilities to acceptable environmental and safety standards, to the proposed cost recovery program and certain operating matters. This letter will confirm Imperial's position as stated during the meeting.

Facility Upgrading Program

The expenditure program outlined in 'Annex A' of Mr. J. Mathieu's letter of April 15th, 1976 to me does not conform in a number of aspects with Imperial's thinking in terms of priority needs, construction capability or cost estimates. This seems to be a result of an apparent reluctance on the part of D.P.W.'s engineering personnel in Edmonton to meet with Imperial personnel to discuss the matter and work out a mutually satisfactory program.

During the meeting it was agreed that Mr. J. J. Lyons of Imperial's Transportation Department, Edmonton would develop a proposed construction program including timing and cost estimates identifying environmental items specifically. D.P.W. Ottawa would use their best efforts to have their Western personnel contact Mr. Lyons promptly and carry out discussions aimed at developing a mutually satisfactory program by mid May. This program would then be used as the basis for cost recovery planning.

Cost Recovery Program

In his April 15th letter Mr. Mathieu stated and D.P.W. confirmed during the meeting that "D.P.W. will finance major repairs to the Marine Terminal over a three year period, providing that the amounts of expenditure can be recovered from Imperial Oil Limited and remitted to D.P.W. in the same fiscal year as the expenditures are made." This is completely unacceptable to Imperial for the reasons indicated below.

The effects of such a program based on the 3 year expenditure schedule proposed by D.P.W. are shown in the following analysis:

Annual Volume - mg

Product	Government		Commercial
Diesel/Heating	6472		1250
Mogas	381		350
Turbo B			840
Sub Total	6853		2440
Total		9293	

Thruput Rental Fee

Year	D.P.W. Proposed Expenditure	Rental Fee (A) Total Volume or	(B) Gov't Volume
	$m	¢/g	
1976/77	298	3.2	4.3
1977/78	881	9.5	12.9
1978/79	243	2.6	3.5
3 Year Average	1422	5.1	6.9
5 Year Average	1422	3.1	4.1

Imperial commented at the meeting that a variation in annual thruput rental fee as shown in Column A in all probability would be unacceptable to the Anti-Inflation Board who must approve of any changes in Posted Prices to the Commercial Sector and as well would be unacceptable to Government Agencies or consumers. Also it was pointed out that there was no allowance for expenditures in the fourth and fifth years of the contract and it was likely that some unprogrammed expenditure would be required.

Imperial advised further that an increase in Posted Pricos to the Commercial Sector resulting from the thruput rental fee would place us in a non-competitive position in the Churchill market and because of the magnitude of the fee, the Posted Price differential would be so great that a likely result would be the loss of much of our commercial volumes. This would not only create the rental fee picture shown in Column B, but would be completely unacceptable to Imperial since our proposal to lease

and operate the facilities at Churchill was predicated on retaining the commercial volumes which provide us with an element of profit while supplying the Government requirements on a cost recovery basis.

Furthermore, it is likely that the Governments of the North West Territories and Manitoba would find large variations in annual price unacceptable. It is also possible that imposing sizable thruput rental fees could increase the product cost to the North West Territories to the point where tanker/barge supply ex Montreal or some other eastern Canadian refinery centre direct to the Government of the North West Territories, Northern Canada Power Commission and Transport Canada at the Keewatin Communities might become attractive. If this volume were lost, the thruput rental fee would have to be significantly increased on the balance.

Imperial emphasized that while we recognized D.P.W.'s needs, we must also be aware of overall marketing implications which might also have inter-Governmental political overtones.

The Risk

During the discussions it was made quite clear by D.P.W. that they wanted nothing to do with Churchill and they questioned why Imperial should now be requiring the upgrading of the plant facilities at Churchill when we had been the operators for over twenty years under the present conditions. We advised that not only our Company but the Federal and Manitoba Governments had developed rules and regulations in recent years prescribing environmental and safety standards. As responsible members of industry

we are concerned with protection of the environment and compliance with laws and have spent very substantial sums of money in recent years, particularly in the Arctic and Sub Arctic, on environmental protection at our own plants. Consequently we had made a condition of our proposal to operate the Churchill facilities that the Federal Government would upgrade the facilities to meet conditions of Federal and Manitoba Government environmental and safety legislation.

Imperial has had some recent bitter experience involving the operations of a facility owned by the Government of Canada where the facility was in less than an environmentally sound status. I am referring here to the facility at Resolute Bay, North West Territories, where Imperial advised the appropriate Government Department of the unsatisfactory aspects of this facility and little, if any, of the necessary work was carried out by the landlord because, I am informed, the Department in question had budgetary problems similar to the ones stated by the Department of Public Works. Shortly thereafter two environmental spills occurred in Arctic waters and Imperial, as the operator of the facility, was held responsible by the Canadian media. Further, I am advised that the Government of Canada in fact instituted litigation against Imperial in this matter. As a result of this sad experience and our corporate history of tremendous expenditures made to upgrade our own facilities in the belief that we have a corporate responsibility to protect the environment of Canada, it is our view that the continued operation of the Government facility at Churchill, Manitoba by Imperial, in its present condition, is a risk which cannot be accepted by Imperial.

Fire Insurance Policy

D.P.W. advised that since the Federal Government self-insured its properties and facilities, it would not place an insurance policy on the Churchill facilities as stated in Imperial's proposal of January 28th. Likewise Imperial advised that it was a self-insurer of its facilities. It was tentatively agreed that the matter of fire insurance could be handled in the lease agreement without placing an insurance policy on the Churchill plant.

Other Matters

The delays that have occurred and continue to occur in reaching agreement on a facility lease and petroleum supply agreement at Churchill are of considerable concern to Imperial. We have committed to tanker charter and product supply for deliveries in July and September, 1976 since the deadlines for these commitments were March 31st. The supply of petroleum to Churchill is part of a total Arctic resupply program and as such must fit in with delivery dates to other depots, manufacturing programs, and of course the ever present constraints of seasonal ice conditions and weather.

Conclusion

For the reasons outlined above, Imperial finds itself in the very awkward position of having to give you notice, and does hereby give you notice of the fact that, unless the Federal Government of Canada advises Imperial by the 15th day of June, 1976 that it has allocated the funds required, and entered into contracts to bring the facility in question up to an acceptable

environmental and safety standard this summer, the condition precedent in our tender will not have been met and Imperial will not place any new products in the facility during this upcoming shipping season and will not operate the Government petroleum facility after the 31st day of August, 1976.

Imperial Oil regrets the necessity for setting a deadline date and for stating the case as bluntly as outlined above, but because of the urgency of time and continuing indications of delaying tactics by those responsible for the Churchill terminal, we believe we have no alternative. I will be available for discussions at your convenience.

Yours truly,

C. E. Langston,
Federal Government
Accounts Manager

MEMORANDUM

CORPORATE AFFAIRS DEPARTMENT

RECEIVED
MAY 27 1976
G. N. JENKINS

May 25, 1976

OK with WAW

PROPRIETARY

PETROLEUM PRODUCT SUPPLY
CHURCHILL, MANITOBA

Mr. W. A. West
Room 1830

Attached is a draft letter to the Department of Supply and Services concerning the condition of the Churchill facilities and our situation there with which you are familiar. At the suggestion of Mr. McGonigal we are asking for your final approval of the position taken.

In light of several discussions which have taken place between Marketing department and others involved, the company position stated in this letter does not include refusal to supply product or refusal to operate the facilities during 1976. It has been agreed that this type of strong stand would risk some adverse reaction from the various government departments involved. We also feel that Imperial should not become embroiled in any conflict between government departments.

We have agreed, therefore to accept the risk of operating the facilities until August 31, 1977. This risk includes the possibilities of an accident as well as adverse publicity which might arise from a possible environmental incident due to the condition of the facility. Mr. H. Clare believes that any physical damage resulting from a spill would not be permanent or irreversible. Mr. McGonigal feels these risks can be minimized to some extent and must be lived with due to the fact that at this late date, the government does not have a reasonable alternative source of supply. We cannot afford the public and government reactions which might be associated with a run out of product in the area. Although the letter asks for an indemnification agreement, it would be our intention to waive this condition if it cannot be met. The value of such an agreement is questionable especially due to the combined Federal/Provincial jurisdictions in these matters.

I would appreciate your approval of this approach recognizing that the company is assuming some risk to be reasonable and fair in this matter.

Rick Dobson

Rick T. DOBSON
Government Relations Division

/jp

cc: see attached list

PETROLEUM PRODUCT SUPPLY
CHURCHILL, MANITOBA

copies of letter sent to Mr. W.A. West, May 25, 1976, as follows:

Messrs.
H.B. McGonigal (w/attach.)
G.N. Jenkins (w/attach.)
H.H. Clare (w/attach.)
J.M. Bedard (w/attach.)
B.E. Brophy (w/o/attach.)
R.F. Roblin (w/o/attach.)

Rick T. Dobson
Government Relations Division

/jp

ᴋ A F T
ay 26, 1976

Mr. J. N. Courtney,
Director,
Transportation & Engineering Branch,
Commercial Supply,
Department of Supply & Service,
MacDonald Building,
123 Slater Street,
Ottawa, Ontario, K1A 0S5

Dear Sir,

Re: Churchill, Manitoba
Your File: TEB 7010-2-2

During an April 28th meeting among personnel of the Department of Supply & Service, the Department of Public Works and Imperial Oil Limited various matters concerning the leasing of facilities at Churchill, Manitoba and the supply of petroleum products were discussed. Imperial Oil expressed some concerns regarding the approach taken by the Department of Public Works in relation to the upgrading of the facilities to acceptable environmental and safety standards, and the proposed cost recovery program as well as other concerns on certain operating matters. This letter will confirm Imperial's position as stated during the meeting.

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Department of Public Works' engineering personnel in Edmonton to meet with Imperial personnel to discuss the matter and work out a mutually satisfactory program.

During the meeting it was agreed that Mr. J. J. Lyons of Imperial's Transportation Department, Edmonton would develop a proposed construction program including timing and cost estimates identifying environmental items specifically. The Department of Public Works, Ottawa would use their best efforts to have their western personnel contact Mr. Lyons promptly and carry out discussions aimed at developing a mutually satisfactory program by mid May. This program would have then been used as the basis for cost recovery planning.

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The effects of such a program to recover costs by means of a thruput fee based on the three year expenditure schedule proposed by the Department of Public Works are shown in the following analysis:

... /3

Annual Volume - mg

Product	Government		Commercial
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Mogas	381		350
Turbo B			840
Sub Total	6853		2440
Total		9293	

Thruput Rental Fee

Year	D.P.W. Proposed Expenditure	Rental Fee (A) Total Volume or	(B) Gov't Volume
	$m	¢/g	
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1978/79	243	2.6	3.5
3 Year Amortization Period	474 per year	5.1	6.9
5 Year Amortization Period	280 per year	3.1	4.1

Imperial commented at the meeting that a variation in annual thruput rental fee as shown in Column A in all probability would be unacceptable to the Anti-Inflation Board, who must approve of any changes in Posted Prices to the Commercial Sector and as well would probably be unacceptable to Government Agencies or consumers. It was also pointed out that there was no allowance for expenditures in the fourth and fifth years of the contract and it was likely that some unprogrammed expenditure would be required.

Imperial advised further that an increase in Posted Prices to the Commercial Sector resulting from the thruput rental fee would place us in a non-competitive position in the Churchill market and because of the magnitude of the fee, the Posted Price differential would be so great that a likely result would be the loss of much of our commercial volumes. This loss would be completely unacceptable to Imperial since our proposal to lease and operate the facilities at Churchill was predicated on retaining the commercial volumes which provide us with an element of profit while supplying the Government requirements on a cost recovery basis.

Column B, above, shows the fee which results if cost recovery is applied only to the Government volumes. It is likely that the Governments of the North West Territories and Manitoba would find large variations in annual price unacceptable. It is also possible that imposing the suggested thruput rental fees could increase the product cost to the North West Territories to the point where tanker/barge supply ex Montreal or some other eastern Canadian refinery centre direct to the Government of the North West Territories, Northern Canada Power Commission and Transport Canada at the Keewatin Communities might become attractive. If this volume were lost, the thruput rental fee would have to be significantly increased on the balance.

Imperial emphasized that while we recognized the Department of Public Works' needs, we must also be aware of overall marketing implications which might also have inter-Governmental political overtones.

... /5

The Risk

During the discussions we sensed that the Department of Public Works was not in a position to upgrade the facility at Churchill and they questioned why Imperial should now be requiring the upgrading of the plant facilities at Churchill when we had been the operators for over twenty years under the present conditions. We advised that not only our Company but the Federal and Manitoba Governments had developed rules and regulations in recent years prescribing environmental and safety standards. As responsible members of industry we are concerned with protection of the environment and compliance with laws and have spent very substantial sums of money in recent years, particularly in the Arctic and Sub-Arctic, on environmental protection at our own plants. Consequently we had made a condition of our proposal to operate the Churchill facilities that the Federal Government would upgrade the facilities to meet conditions of Federal and Manitoba Government environmental and safety legislation.

Imperial has had some recent unfortunate experience involving the operations of a facility owned by the Government of Canada where the facility was not in an environmentally sound condition. I am referring here to the facility at Resolute Bay, North West Territories, where Imperial advised the appropriate Government Department of the unsatisfactory aspects of this facility and little, if any, of the necessary work was carried out by the landlord because, I am informed, the Department in question had budgetary problems similar to the ones stated by the Department of Public Works. Shortly

thereafter two environmental spills occurred in Arctic waters and Imperial, as the operator of the facility, was held responsible by the Canadian media. Further, I am advised that the Government of Canada in fact instituted litigation against Imperial in this matter. As a result of this sad experience and our corporate history of considerable expenditures made to upgrade our own facilities in the belief that we have a corporate responsibility to protect the environment of Canada, it is our view that the continued operation of the Government facility at Churchill, Manitoba by Imperial, in its present condition, is a risk which cannot be accepted by Imperial indefinitely.

Fire Insurance Policy

THE DEPARTMENT OF PUBLIC WORKS ~~D.P.W.~~ advised that since the Federal Government self-insured its properties and facilities, it would not place an insurance policy on the Churchill facilities as stated in Imperial's proposal of January 28th. Likewise Imperial advised that it was a self-insurer of its facilities. It was tentatively agreed that the matter of fire insurance could be handled in the lease agreement without placing an insurance policy on the Churchill plant.

Other Matters

The delays that have occurred and continue to occur in reaching agreement on a facility lease and petroleum supply agreement at Churchill are of considerable concern to Imperial. We have committed to tanker charter and product supply for deliveries in July and September, 1976 since the deadlines for these

commitments were March 31st. The supply of petroleum to Churchill is part of a total Arctic resupply program and as such must fit in with delivery dates to other depots, manufacturing programs, and of course the ever present constraints of seasonal ice conditions and weather.

For the reasons outlined above, Imperial finds itself in the very awkward position of being requested by Government to operate a facility which we do not feel complies with today's environmental and safety standards. This is a matter which gives us great concern and we would be prepared to remove ourselves from the facility if you could advise us that you had an alternative source of supply. However, realistically, we feel that you do not have an alternative source of supply as of this date and in order not to embarrass the Government of Canada by the lack of product being available from this location this coming winter, Imperial will reluctantly place product in this facility during this year's shipping season and will operate the facility by means of an extension of the existing agreement for a period of one year, to the 31st day of August, 1977, on the condition that the Government of Canada agrees to indemnify and hold harmless Imperial from any and all claims, possible claims, actions, losses, etc. which might arise from the operation of this facility. Please find attached a draft indemnification agreement which we would request that you have executed by the Deputy Minister of the Department of Public Works, and return to Imperial by the 15th day of June, 1977.

Be advised that during the period of this one year extension, Imperial will not operate the pipeline from the facility in question to Fort Churchill. All pricing for this one year extension will be on the basis of the tender submitted on the 28th day of January, 1976, including all escalation provisions.

If the Government of Canada does not appropriate the funds necessary to upgrade the facility, let the necessary contracts and advise Imperial of these matters by the 15th day of March, 1977, be advised that Imperial will refuse to place additional products in the facility in the shipping season of 1977 and will cease to operate the facility as of the 31st day of August, 1977.

Imperial regrets the necessity of having to take the stand outlined above and for stating the case as bluntly as we have, but because of the seriousness of the matter we believe we have no alternative. Imperial personnel will be available for discussion at your convenience.

Yours very truly,

C. E. Langston,
Federal Government
Accounts Manager

BEB/as

MAIL TO

G N Jenkins

RECEIVED
MAY 28 1976
G. N. JENKINS

MEMO

To be attached to draft letter
re: Churchill

FROM

RT Dobson/jp

DATE

5/27/76

3 R-195/2 3/65

IMPERIAL

WHEREAS the party of

the party of the Second Part op

THIS AGREEMENT made the day of , 19

B E T W E E N

HER MAJESTY THE QUEEN,
in right of Canada, as
represented by the
Deputy Minister of Public
Works

OF THE FIRST PART

and

IMPERIAL OIL LIMITED

OF THE SECOND PART

WHEREAS the party of the First Part has requested that the party of the Second Part operate a facility owned by the party of the First Part, which facility is located in Churchill, Manitoba;

AND WHEREAS the party of the Second Part is reluctant to operate that facility in its present condition unless the party of the First Part agrees to indemnify and hold harmless the party of the Second Part from any matter which arises as a result of the operation of the facility by the party of the Second Part;

NOW THEREFORE in consideration of the said Imperial Oil Limited having acceded to the request of Her Majesty The Queen, in right of Canada, as represented by the Deputy Minister of Public Works, to operate the said facility for a period of one (1) year commencing on the 1st day of September, 1976 and

terminating on the 31st day of August, 1977, Her Majesty The Queen, in right of Canada, as represented by the Deputy Minister of Public Works, hereby undertakes to indemnify and save Imperial Oil Limited harmless from and against all actions, claims, demands, losses, costs, damages, and expenses in respect of damage to property, or injury to or death of persons, including the property and persons of Imperial Oil Limited or Her Majesty The Queen, in right of Canada, as represented by the Deputy Minister of Public Works, their employees, agents, and sub-contractors, caused by or arising from Imperial Oil Limited's operations from the facility in question, including Imperial Oil Limited's use and occupation of the plant and equipment thereon.

DATED the   day of   , 19   .

____

cc: G. N. Jenkins

D R A F T
May 26, 1976

Mr. J. N. Courtney,
Director,
Transportation & Engineering Branch,
Commercial Supply,
Department of Supply & Service,
MacDonald Building,
123 Slater Street,
Ottawa, Ontario, K1A 0S5

RECEIVED
MAY 27 1976
G. N. JENKINS

Dear Sir,

Re: Churchill, Manitoba
Your File: TEB 7010-2-2

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C. E. Langston,
Federal Government
Accounts Manager

BEB/as

MEMORANDUM

MARKETING DEPARTMENT

RECEIVED
JUN 18 1976
G. N. JENKINS

June 17, 1976

1976 Norman Wells Price Increases

Messrs. H. B. McGonigal
C. E. Overturf
L. C. Sevick
G. H. Thomson
R. G. Wilson

Attached is the letter from Indian and Northern Affairs approving the price increases requested by Imperial.

Effective June 17, 1976 Imperial will raise the posted prices to "small consumers" and Government Departments and Agencies by 4.0¢ per gallon at Norman Wells, and by 5.2¢ per gallon on mogas and 5.4¢ per gallon on diesel and heating oil at Inuvik and Alkavik due to increases in barge rates from Norman Wells. The price increase at Norman Wells is retroactive to June 1 on direct barge sales f.o.b. Norman Wells.

The 1976 pricing strategy was to be consistent with last years' price increases because of the uncertainty of 1980 crude value and possible A.I.B. intervention.

The pricing agreement allows supply which is surplus to the "small consumer" and Government Departments and Agencies to be priced to industrial customers, i.e. "local large industrial accounts" at Edmonton market plus bridging costs. Last years price increases ranged from 6¢ to 11¢ per gallon depending upon product and location. Parity with Edmonton plus bridging was not reached because price increases would have been too large.

To be consistent, the 1976 price increases will be the same as last year and will be effective June 17, 1976. Because of increasing Edmonton prices and bridging costs parity on some products will not be reached until 1977 and possibly on other products not until 1978.

R F Roblin

R. F. Roblin
Secretary
Arctic Review Committee

RFR/cm
Attd.
c.c. Messrs. G. N. Jenkins
R. Horsfield, Calgary
G. A. Fullerton, Edmonton

Messrs. J. M. Bedard
C. E. Langston, Ottawa
J. A. Stewart

Indian and Northern Affairs | Affaires indiennes et du Nord

OTTAWA, Ontario K1A 0H4
June 15, 1976

Your file Votre référence

Our file Notre référence

Imperial Oil Limited,
Marketing Department,
111 St. Clair Avenue West,
Toronto, Ontario.

Attention: Mr. Bob Roblin

Dear Sirs:

Norman Wells Price Increases

I refer to your letter of April 27, 1976 to the Minister, Mr. Buchanan, from your Mr. West requesting price increases for Norman Wells product to become effective in 1976.

Please be advised that the Minister has approved the second year price increase of 4.0 cents per gallon for Norman Wells products at the Norman Wells refinery, including heavy fuel oil, sold to small consumers using less than 10,000 gallons per year, the Northern Canada Power Commission, Territorial Government Agencies, and Federal Government Agencies. The price increase for Norman Wells products became effective June 1, 1976 in accordance with the conditions stated in our letter to you of July 31, 1975.

We will notify the Northern Canada Power Commission, the Commissioner and the Territorial Council of the increases in price for Norman Wells product and that Imperial is prepared to visit the Commissioner and Territorial Council to explain, from the Company's viewpoint, the need and appropriateness of the price increases.

Yours sincerely,

Frederick J. Joyce,
Director,
Northern Natural Resources
and Environment Branch.

PROPRIETARY

IMPERIAL OIL LIMITED

MARKETING DEPARTMENT

Vice President & General Manager
WILLIAM A. WEST

Assistant General Managers
CHARLES A. HAYLES
GEORGE N. JENKINS
THOMAS H. THOMSON

111 St. Clair Avenue West, Toronto, Canada M5W 1K3

RECEIVED
JUN 18 1976
G. N. JENKINS

June 18, 1976

Norman Wells Heavy Fuel
Oil Tank

Messrs. G. A. Fullerton, Edmonton
R. Horsfield, Calgary
C. E. Langston, Ottawa

Dear Sirs:

Attached is the Topic Summary and the vu-graphs used at the presentation to the Executive Committee June 17, 1976. Approval was received for the appropriation of funds to construct the 100 MB heavy fuel oil tank at Norman Wells.

The foundation will be constructed this summer and the tank will be erected next summer.

Yours truly,

R. F. Roblin
Product Advisor

RFR/cm
Attd.

c.c. Mr. G. N. Jenkins

PROPRIETARY

EXECUTIVE COMMITTEE OF THE BOARD

TOPIC SUMMARY

(to be approved by Executive Director and forwarded to Secretary two days prior to meeting)

DATE OF MEETING: June 17, 1976

DATE PREPARED: June 16, 1976

TOPIC	DEPARTMENT	PRESENTATION AND DISCUSSION TIME (Minutes)
Norman Wells Heavy Fuel Oil Tank	Logistics	10 minutes

RECOMMENDATIONS/CONCLUSIONS

Appropriation of $2345M capital, $150M expense to construct a 100MB seasonal storage tank for heavy fuel oil at Norman Wells. A foundation contract must be awarded by June 25/76 to permit project completion on schedule by September 1977.

RATIONALE FOR RECOMMENDATIONS AND CONCLUSIONS

1. Winter H.F.O. production is presently flared. The H.F.O. tank will reduce winter flaring and provide supply capability to meet contract sales to the Northern Canada Power Commission.

2. A legal commitment exists to construct this facility. In August 1975, the Executive Committee accepted a Marketing Department recommendation on a Norman Wells agreement with the Federal Government, whereby construction of this tank was a condition for obtaining an improved pricing policy. The Government has fulfilled its obligations to date by approving 4¢/gal. product price increases in 1975 and 1976 respectively.

3. The improved Norman Wells profitability resulting from the 1975 agreement translates into a D.C.F. return in excess of 50% on the tank investment.

4. Funds for this item are included in the 1976 Logistics capital budget of $35.6 MM, reviewed with the Executive Committee April 8, 1976

POSSIBLE RISKS AND/OR ADVERSE CONSEQUENCES

A change of Government policy regarding the annual price increases could lead to a negative return on the tank investment.

S-171A 4/76

NORMAN WELLS

1975 AGREEMENT

BENEFITS

- PRICES OF NORMAN WELLS PRODUCTS WILL BE ALLOWED TO RISE IN ANNUAL INCREMENTS TO ATTAIN, BY 1980, THE LESSER OF:

  (1) A NORMAN WELLS CRUDE VALUE EQUIVALENT TO EDMONTON CRUDE LESS A $1.50/BBL. PIPELINE TARIFF

  OR

  (2) CURRENT DOMESTIC PRICE OF SIMILAR PRODUCTS EX STRATHCONA

OBLIGATIONS

- IMPERIAL SHALL PROVIDE ADEQUATE WINTER STORAGE FOR PRODUCTS, INCLUDING HEAVY FUEL OIL, TO ENSURE MAXIMUM UTILIZATION AND SALE OF EACH PRODUCT.
- IMPERIAL SHALL FOLLOW (AT NORMAN WELLS) THE GOVERNMENT'S SOCIAL GUIDELINES FOR THE NORTH, IN PARTICULAR THE TRAINING AND EMPLOYMENT OF NATIVE PEOPLE

NORMAN WELLS
HEAVY FUEL OIL TANK

PROJECT COST

	$ 560 M CAPITAL	$100 M EXPENSE
FOUNDATION	$ 560 M	$100 M
TANK, PIPING, FIREWALLS	1785 M	50
	$2345 M	$150 M

DESCRIPTION

- 120′ x 48′ CONE ROOF TANK WITH FIRED HEATERS
- FORCED-DRAFT VENTILATION SYSTEM IN AN ELEVATED FOUNDATION
- FOUNDATION TO CONTAIN SYNTHETIC INSULATION LAYERS AND TEMPERATURE PROBES

ALTERNATIVES

- SUPPORT FROM STRATHCONA
- PERMIT SUPPLY SHORTFALLS

JUSTIFICATION

- A LEGAL COMMITMENT EXISTS WITH THE FEDERAL GOVERNMENT
- THE NEW PRICING AGREEMENT WILL YIELD A D.C.F. RETURN IN EXCESS OF 50% ON THE TANK INVESTMENT

NORMAN WELLS

1975 AGREEMENT

ECONOMICS

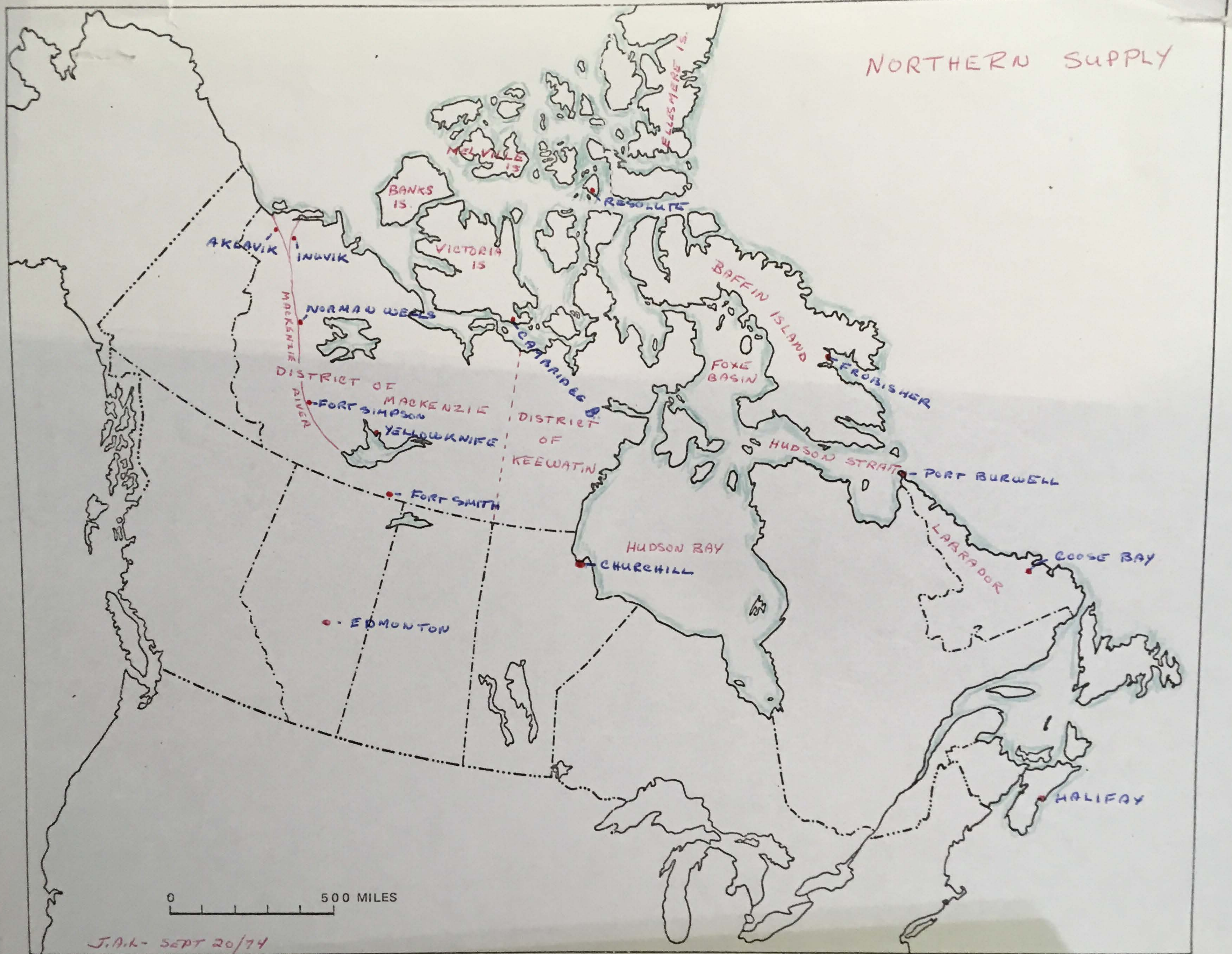
SITUATION		NORMAN WELLS CRUDE PRICE	NET EARNINGS	R.O.C.E.
1974	BACK CALCULATED FOR CURRENT TAXATION	$3.32/BBL.	$ 0.7 MM	7%
1975	ACTUAL	4.51	1.1	9.5
1980	BASE CASE			
	AGREEMENT IN EFFECT (INCREASES AVERAGE 7 1/2¢/GAL.)	13.50	3.1	13

NORMAN WELLS

HEAVY FUEL OIL TANK

RECOMMENDATION

APPROPRIATION OF $2345M CAPITAL, $150M EXPENSE TO PERMIT COMPLETION BY SEPTEMBER, 1977.


NORTHERN SUPPLY
ELLESMERE IS.
MELVILLE IS
BANKS IS.
RESOLUTE
AKLAVIK
INUVIK
VICTORIA IS
BAFFIN ISLAND
NORMAN WELLS
MACKENZIE RIVER
CAMBRIDGE B.
FOXE BASIN
FROBISHER
DISTRICT OF MACKENZIE
FORT SIMPSON
YELLOWKNIFE
DISTRICT OF KEEWATIN
HUDSON STRAIT
PORT BURWELL
FORT SMITH
LABRADOR
HUDSON BAY
CHURCHILL
GOOSE BAY
EDMONTON
HALIFAX
0
500 MILES
J.A.L. - SEPT 20/74
NG 443-74